

The complaint

Mrs F and Mr F complain about Admiral Insurance (Gibraltar) Limited's ("Admiral") offer to settle their claim under their buildings insurance policy.

What happened

Mrs F and Mr F had a leak under their kitchen floor which they reported to Admiral. Mrs F and Mr F say Admiral agreed for them to use their own builder to carry out the work. Mrs F and Mr F say they sent invoices to Admiral in the sum of £32,579 but Admiral offered £14,710.16 to settle the claim. Mrs F and Mr F complained as they felt the offer was unreasonable because, through the period the works were carried out, they made Admiral aware of all costs, and Admiral didn't at any point raise any issues about them using their own builder.

Admiral responded and explained they couldn't see a monetarily broken-down quote from Mrs F and Mr F's builder to justify an increased offer. They said the schedule of works sent to Mrs F and Mr F by their loss adjuster will be the works agreed to return the affected rooms to their pre-loss condition. They said, they're only liable for the amount it will cost to rebuild or repair from the event and their agent has quoted they're able to carry out repairs for £14,710.16. They said they have pre-arranged special business rates with their contractors, but some customers choose to use their own contractor, so they like to be able to offer their customers options. Admiral said they stand by their loss adjuster's quote but would be happy to consider an alternative report if compiled by a suitable expert.

Our investigator looked into things for Mrs F and Mr F. He thought Admiral hadn't worked out their settlement offer fairly and recommended they base their offer on market rates rather than their discounted business rates. Our investigator also recommended Admiral pay 8% simple interest on any increase in settlement. Admiral didn't reply so the matter has come to me for a decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so, I've decided to uphold the complaint. And, I think the investigator's recommendation here is a fair way to resolve matters.

My role requires me to say how a complaint should be settled quickly and with minimal formality and so I'll focus on what I consider to be the crux of the complaint and the main areas of dispute. There's no dispute that this is a claim which is covered by Mrs F and Mr F's policy. The dispute relates to the settlement offer and how Admiral have arrived at this offer.

My starting point is Mrs F and Mr F's home insurance policy document. This sets out the terms and conditions and describes the steps they'll take when a customer notifies them of a claim. It says, "*We may appoint a firm of loss adjusters to act on our behalf to assess your*

claim.” And, as the basis for settling claims, “We may ask you for more information to support your claim, such as...original receipts, invoices or valuations...” Under a heading setting out general conditions, it says, “You must not...agree to or run up any costs without our agreement before any work starts” and “Admiral are entitled to “...appoint loss adjusters or other experts, inspect damage, and arrange for repairs or replacements.”

Mrs F and Mr F first discovered the issue in January 2022 when they found water leaking through their kitchen flooring. Mrs F and Mr F already had builders carrying out work elsewhere in the house, so they contacted Admiral to report the issue and agreed to arrange for their own builder to turn off the water and strip out the tiled flooring. Admiral then appointed an agent who located the source of the leak, and the pipe was repaired. They also appointed a loss adjuster to handle the claim. I can see, in February, Admiral’s agent attended Mrs F and Mr F’s property to handle the drying process. In their report they explained the kitchen units needed to be removed to help with the drying process.

I’ve listened to a call recording where Mr F calls the loss adjuster to chase up progress. He explains Admiral’s agent had attended his property and confirmed the kitchen needed to be removed before they can start the drying process. The call handler queries whether Mr F is looking for them to appoint a contractor or if he wants to appoint his own for the strip out works. Mr F asks if he can arrange this himself, but he wants to know what he’ll be covered for if he arranges his own contractor. The call handler explains the process would involve Mr F getting a quote and sending it to them for approval.

Mr F is clearly concerned about being covered and wants to ensure he has authority to proceed with getting quotes with a view to instructing his own contractor. The call handler explains if the agent has suggested the strip out work needs to be done, then it will have to be done. The call handler explains the quote would need to cover removal and reinstatement of the kitchen. Mr F then queries what will happen if, during the removal process, items are damaged, and the call handler explains Mr F will need to take photos of this. Mr F explains he’s nervous about taking these steps and would like something in writing to confirm what he can do and wants to avoid Admiral later claiming they didn’t authorise him using his own contractor to do the strip out works. The call handler confirms they’ll get the claims handler to confirm this for Mr F.

There’s a further call where Mr F explains his builder has started the strip out work in the kitchen and the splash back has broken while removing it. Mr F explains he’s concerned there’s likely to be damage to other units also while being removed. The agent asks Mr F to upload images as evidence. There’s then a further call during which Mr F explains his builder will start putting the new flooring in place and he needs authorisation for his new kitchen to be installed. The agent explains she’ll arrange for the claims handler to call Mr F back about his quote. The work is then completed and Mr F sends invoices to Admiral. I can see Admiral’s loss adjuster attended Mrs F and Mr F’s property to validate the claim. This report notes the strip out works had been completed so they’ve scoped for an entire kitchen. The loss adjuster notes Mrs F and Mr F’s quotes are “...*substantially higher than scope and it appears to be mainly the labour cost.*”

I can see Mrs F and Mr F reject Admiral’s offer of £14,710.16. Mr F emailed Admiral attaching the invoices he has paid. One is for £498 to repair the floor once the source of the leak was found. There’s an invoice for £11,460 which Mr F describes was for lifting of the floor, removal of kitchen units and supply and relaying of new floor for kitchen and dining room. It appears this was amended from the original quote due to the need to raise the floor in the kitchen to match the dining room level. Then there’s an invoice for £19,771 which Mr F describes was for the supply and installation of a replacement kitchen. And an invoice for £850 for redecorating the kitchen and dining room. Admiral confirm they’ve paid the drying costs of £450.72 and £498 repair costs so far.

It's clear there's a significant difference here between what Mrs F and Mr F have paid and what Admiral have offered. I can see Admiral and their loss adjuster believe this is down to a difference in labour costs as well as the material costs. I'm persuaded this is the case as Admiral say they have pre-arranged discounted rates from their contractors so this would, understandably, be lower than the market rates paid by Mrs F and Mr F. I'm further persuaded this is the case as the schedule of works prepared by the loss adjuster broadly includes the work which Mr F has described when sending his invoices to Admiral. So, if the scope of work doesn't account for the difference in cost, then I believe it's more likely than not it's down to the rates applied for labour and the materials.

Most insurers have established relationships in place with contractors or suppliers at pre-agreed rates – which is often below the market price. So, it's not unusual or uncommon for an insurer, when looking to cash settle a claim, to apply their own contractor and supplier rates. Admiral say they have pre-arranged special business rates with their contractors, but some customers choose to use their own contractor, so they like to be able to offer their customers options. So, as a general principle, where an insurer has agreed for a customer to use their own contractor despite them having pre-agreed business rates in place with their own contractors, I don't think it's unreasonable for the insurer to settle the claim based on what it would've cost them. But, in such circumstances, I think it's important for the insurer to make this clear to a customer to allow them to make an informed decision on how to proceed. And in this case, I don't think that has happened.

There were a number of discussions between Mr F and Admiral and the loss adjuster. It's clear Mr F was explaining what he was planning on doing and seeking authority to take such steps. It's also clear Mr F was very nervous about taking steps which might have a detrimental impact on his claim later down the line. From the contact notes I've seen and the call recordings I've listened to, I can't say Admiral made it clear to Mrs F and Mr F that the amount they would pay to settle the claim would be the amount it would've cost them to get their own contractors to do the work. I think it's particularly important for this to be clearly explained before a customer arranges any work to be carried out by their own contractor as this can have cost difference implications. And in this case, that cost difference is significant.

Although, broadly, the schedule of works prepared by the loss adjuster appears to include all work Mr F has described as being carried out, the invoices provided by Mrs F and Mr F are very limited in detail. I can see Admiral have explained Mrs F and Mr F haven't provided a monetarily broken-down invoice. So, it might be the case that Mrs F and Mr F need to provide a more detailed breakdown from their builder of the work carried out and materials used if there is any dispute on the schedule of works. But given that Admiral didn't explain the consequences of a cash settlement to Mrs F and Mr F, they should settle the claim using market rates rather than their discounted contractor rates.

Putting things right

I've taken the view that Admiral haven't offered Mrs F and Mr F fair settlement terms. So, provided the schedule of works covers all work carried out, then Admiral should settle the claim based on this but using current market rates rather than their own discounted contractor and supplier rates. If this settlement amount exceeds Admiral's offer of £14,710.16, then Admiral should pay 8% simple interest on the additional amount, from the date of their offer to the date of settlement. Admiral should provide Mrs F and Mr F with a certificate showing any taxation deducted. It is of course open to Admiral to apply the remaining terms and conditions of the policy and to make any other further enquiries they feel are necessary

My final decision

My final decision is that I uphold the complaint. Admiral Insurance (Gibraltar) Limited must take the steps in accordance with what I've said under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs F and Mr F to accept or reject my decision before 7 June 2023.

Paviter Dhaddy
Ombudsman